

## Forest Lands Taxation Advisory Committee Meeting Minutes

August 12, 2021

### Committee Members Present:

Gordy Sanders  
Greg Chilcott  
Paul McKenzie  
Randy Mannix  
Nancy Mehaffie  
Sen. Mike Cuffe  
Sen. Pat Flowers  
Rep. Becky Beard  
Rep. Marilyn Marler\*

### Department of Revenue Staff:

Scott Mendenhall-Deputy Director, DO  
Kory Hofland-Administrator, PAD  
Robin Rude-Deputy Administrator, PAD  
Bryce Kaatz-Unit Manager, PAD  
Bonnie Hamilton-Management Analyst, PAD  
Bill Billman-Program Support Specialist, PAD  
Nick Gochis-Legal Services, DO  
Ed Caplis-Director, TPR  
Brianna Agtarap-Executive Assistant, DO

### Other Attendees:

Megan Moore-Legislative Services  
Bob Story-Montana Taxpayers Association  
Julie Altemus-Montana Wood Products  
Association  
John Baucus

\*Absent

- I. Chairwoman Becky Beard called the meeting to order at 9:00 A.M. Ms. Brianna Agtarap proceeded to take roll call.
  
- II. Chairwoman Beard began with reviewing the agenda including:
  - Review of the minutes from the previous meeting
  - Valuing forest land for property taxation presentation by Bonnie Hamilton
  - Contracts with Dr. Jackson or other alternatives
  - Benchmark dates for meetings and reports
  - Report from previous committee
  - Committee discussion and questions
  - Public comment
  - Establish time and date for next meeting

Sen. Mike Cuffe stated he was having computer issues but would be available over the phone.

- III. Chairwoman Beard asked if everyone on the committee received a copy of the minutes from the last meeting which was July 9, 2021. Sen. Pat Flowers made a motion to approve the minutes from the July 9, 2021 meeting. The minutes were approved unanimously.

- IV. Ms. Bonnie Hamilton began her presentation of Valuing Forest Land for Property Taxation. The presentation covered the requirements for forest land classification, formulas and variables, the taxable value, and the natural disaster valuation reduction. Mr. Gordy Sanders suggested that Western Larch be added to the list of soft wood tree species that are common on commercial land. Mr. Randy Mannix also suggested adding Cedar and Grand Fir. Chairwoman Beard suggested making side notes to make it more inclusive when making final recommendations. Ms. Nancy Mehaffie had a question regarding the 100 board feet and if its per year. Mr. Greg Chilcott had a question regarding how the Department of Revenue (DOR) determines the criteria for the valuation zones and how counties get moved from one zone to another. Sen. Flowers suggested that the criteria was based on Dr. Jackson's report on forest income and management cost and the cost of those changed enough to warrant a shift from one zone to another. Chairwoman Beard had a question regarding using DNRC's timber sales data and whether that is reflective of other sales. Sen. Flowers had a question regarding the taxable percentage and keeping it revenue neutral.
- V. Deputy Director Scott Mendenhall provided information regarding DOR's potential alternate process for SB 263. He stated DOR could do the report in house and save taxpayer dollars. Sen. Cuffe who is the sponsor for SB 263 stated that he wanted to back Mr. Mendenhall and agreed completely with what he had to say. Mr. Mendenhall then introduced Mr. Ed Caplis, Director of the Tax Policy and Research unit of the Department of Revenue. Mr. Caplis stated that the report is something that we can do internally. Mr. Mendenhall stated that we will need to identify and make any statutory changes. Mr. Mendenhall then introduced Mr. Nicholas Gochis who is an attorney for the Department of Revenue to speak on any necessary changes that need to be made. Mr. Gochis began by saying a statutory change would need to be made if there was consideration on going from the 6 year cycle to the 2 year cycle and second would be to consider amending 15-44-103, MCA, specifically in subsection 9 where it speaks to the department using information and data provided by the University of Montana-Missoula to determine the forest productivity value. Mr. Gochis ended by saying these would need to be addressed by the legislature. Sen. Flowers had a question regarding why a statutory change would need to be made to the productivity value when they are only looking at the valuation. Sen. Flowers had a follow-up question that was redirected to Ms. Hamilton asking how the statue reads. Sen. Flowers then suggested that we separate the productivity from the valuation because he thinks it's reasonable for the DOR to do the valuation part but not forest productivity assessment. Mr. Sanders agreed with Sen. Flowers and also agreed with the committee working closely with the DOR to develop a methodology. Sen. Cuffe stated this tax has an impact on not only timber but also equipment taxes, payroll taxes, and income tax. Sen. Flowers had a question regarding keeping the tax collections revenue neutral. Mr. Paul McKenzie stated that tax policy is reactionary and going forward the committee can work with the DOR to even out the valuation side of things. Sen. Flowers supported that approach and stated a goal for this committee should be to get to the point where we are not always adjusting the taxable rate. Mr. Mendenhall called on Kory Hofland, Administrator of the Property Assessment Division to speak on the DOR's standpoint on the tax revenue neutral. Mr. Hofland stated that we need to be able to maintain verifiable sales and we may need to look at staffing to be able to do so but thinks this is a great way to move forward. Mr. Bill Billman referenced a

comment made in the comment section by Mr. Robert Story stating with the 6 year cycle there was a lot of pressure to mitigate the effects of reappraisals driven by residential property but since going to a 2 year cycle in 2015 none of the class tax rates have been adjusted when new appraisal came out and some of the impacts should be reduced by mill levy adjustments. Chairwoman Beard reminded everyone that we will have a time for public comment.

- VI. Chairwoman Beard started a discussion regarding benchmark dates for meetings and reports. Mr. McKenzie suggested that the first step would be to look at data availability on the valuation side of things and to look at things more procedurally. Chairwoman Beard stated that at the last meeting we wanted to have a final draft ready in thirteen months. Chairwoman Beard asked if the committee wanted to go through the Request for Proposal (RFP) process to do some more updated studies or proceed with the data on hand. Sen. Flowers stated that he supports that decision. Chairwoman Beard suggested that there needs to be some clarification on the statutory language with continuing to use the University of Montana or having DOR do the valuation so there is a better idea on how to proceed. Mr. Mannix moved to proceed using DOR staff. Mr. Chilcott asked if that would require statutory change. Chairwoman Beard stated that the first opportunity to make statutory change would be at the next legislative session in 2023 but in the meantime, we could make a final recommendation for this to the Revenue Interim Committee (RIC) and proceed from there. Mr. Sanders agreed with Sen. Flowers and Mr. Mannix and also suggested that we invite someone from the University of Montana and Northwest Management to the next meeting. Chairwoman Beard clarified with Mr. Sanders that those were recommendations made outside of Mr. Mannix's motion. Mr. Sanders stated they were made in addition to the motion. Mr. McKenzie asked if the goal is to come up with a new appraisal done in house by the DOR to replace the 2019 appraisal or is the goal to have the procedure in place by the end of 2022 to be able to make any necessary changes at the next legislative session. Ms. Hamilton directed that question to Mr. Bryce Kaatz. Mr. Kaatz stated that realistically it would be difficult for the DOR to get that in place by the next legislative session. Mr. Hofland suggested that the committee look at the output of the DOR's work before deciding to make any changes. Chairwoman Beard redirected back to the motion on the table made by Mr. Mannix. Chairwoman Beard suggested that we determine whether or not we are going to go with an outside contract with the University of Montana to update the study or do we use data that is available and use DOR's staff to get the groundwork in motion. Chairwoman Beard suggested we take a roll call vote for the motion that is on the table. Mr. McKenzie asked that the motion be restated. Mr. Mannix stated his motion which was to have the valuation done in house and have the help of committee members in addition to what Mr. Sanders suggested. Chairwoman Beard stated that the way she understood it was that Mr. Sanders recommended we bring in additional information and it was outside of Mr. Mannix's motion. Mr. Mannix asked for a second motion and Mr. Chilcott provided the second motion. Ms. Agtarap proceeded to do a roll call vote. The motion passed unanimously. Chairwoman Beard stated that if we find things that need to change then those can be reflected in statutory legislation. Sen. Flowers asked what tax year we would be able to implement the 2-year cycle if we succeed with the proposed change in the 2023 legislative session. Mr. Kaatz stated that we would implement the change to the 2025 tax year instead of the 2027 tax year which would be the end of the 6-year cycle. Ms. Mehaffie asked what part of the valuation formula effects the escalation in the value. Ms.

Hamilton stated that the formula has four components that are put together to get the value and three of those four are ones that change and do make a difference in the valuation. Ms. Mehaffie asked if those numbers came from the University of Montana. Ms. Hamilton stated that the only one that came from the University of Montana is the stumpage value. Ms. Robin Rude suggested that the next steps for the DOR, with help from the committee is to figure out what data sources are available and what data sources should be used to recreate a value for forest land. Chairwoman Beard asked Mr. Caplis for input on what data should be used. Mr. Caplis stated that there is timber sales data that is public information and we need to work on building a data base with those sales. Chairwoman Beard stated she wanted to review some of the highlights and duties for this committee. Chairwoman Beard stated that the committee needs to be responsible for reviewing appraisal methodology with the DOR, bring forward updates to the RIC by September of 2022. Chairwoman Beard stated that in reviewing the data, that includes productivity value, stumpage value, wood production, capitalization rate, net income, and agricultural related income. Chairwoman Beard stated that the committee wants to recommend adjustments to data, if required, and changes for governmental forest lands programs, market conditions, and forest land practices. Chairwoman Beard stated that the committee needs to recommend appropriate base periods and averaging methods to the department, verify forest valuation zones, and recommend forest land valuation techniques. Chairwoman Beard stated that legislation in SB 262 revises the composition and duties of the committee, while SB 263 revises the tax rate for forest properties for tax years 2021 and 2022 for revenue neutrality. Ms. Mehaffie stated that Dr. Jackson used the regression analysis to work out the values for the factors and asked if there is a statistician on the DOR's staff that can put something like that together. Chairwoman Beard directed that question to Mr. Caplis. Mr. Caplis stated that the DOR has enough staff to be able to put together a regression analysis and build models.

- VII. Chairwoman Beard asked Mr. Sanders if he had a question regarding membership terms. Mr. Sanders stated that the committee members have been appointed for a 6-year term. Mr. Sanders suggested that we have monthly meetings and have the meetings via Zoom because it may be more cost effective for the DOR. Mr. Sanders also suggested that we invite the Bureau of Business and Economic Research (BBER) and Northwest Management to present at the next meeting and talk about what they do in terms of forestry related research and how they gather their data. Chairwoman Beard stated she recalled from the last meeting a discussion regarding bringing Dr. Jackson in to give an overview of his methodology and asked if that was still something the committee was interested in doing. Mr. McKenzie stated that it might cause more confusion to bring what we did before to the table then it would be informative. Mr. McKenzie suggested that the committee look at methodology which may be a more productive use of the committee's time.
- VIII. Chairwoman Beard asked if the committee had any further questions or concerns before going to public comment. There were no questions.
- IX. Chairwoman Beard called anyone to the podium for public comment. Mr. John Baucus stated that the study done by Northwest Management on the east side of his ranch showed the growth

rate to be 1/3 of the rate claimed by the DOR and below the minimum 100 board feet per acre growth rates. Mr. Baucus asked how the taxation rate relates to the poor value of timber. Mr. Baucus stated that the cost of skidders needs to be reviewed. Mr. Baucus stated that there is little information on DNRC's website regarding sales. Mr. Baucus stated that there are so many variables that determine value. Mr. Baucus asked what the true definition of wood product price is since there are a few variables. Mr. Baucus is concerned with the fairness in the tax. Mr. Baucus asked if land doesn't qualify as forest land, what is the final taxable value. Mr. Story who was on via zoom agreed with the discussion regarding the variables and the productivity issues. Mr. Story stated that there may be issues with the formula that overestimate the productivity of timber lands. Mr. Story is also concerned with the stumpage value and capitalization rate and thinks we need to discuss all of these issues in the next meeting. Mr. Story stated that the committee should discuss the tax rate mitigation and have a plan in place before the next legislative session. Mr. Story also expressed his concern with the 2-year cycle versus the 6-year cycle and stated the committee should put a lot of consideration into this. Mr. Story asked Ms. Hamilton to answer Mr. Baucus' question regarding if land doesn't qualify as forest land, what is the final taxable value. Ms. Julie Altemus expressed her concern with the 2-year cycle versus the 6-year cycle and stated the committee should put a lot of thought into this and also not forcing landowners to convert to something they are not.

- X. Chairwoman Beard stated that the following agenda items will be covered at the September meeting: 1) Mr. Caplis and his team to start zeroing in on the development and methodology for land valuation techniques; 2) stumpage values; 3) base periods and averaging methods; 4) to confirm the zone configurations; 5) to broaden out the capitalization rate as it may need to be revised. Sen. Flowers suggested having a conversation with BBER and Northwest Management about additional resources. Chairwoman Beard asked the DOR to make arrangements for that because they would fit well with the information that Mr. Caplis will provide. Chairwoman Beard suggested that the next meeting be at 9 A.M on September 9 which was agreed to by the committee. Mr. Caplis expressed some concern with being able to provide the information that was requested by the next meeting. Chairwoman Beard stated she just wanted an outline from the DOR on how they are going to approach the new methodology. Mr. Mendenhall stated that they will be able to provide the requested information.
- XI. Meeting adjourned at 11:25 A.M.